



# MARKET UPDATE

October 01, 2018

## Regional Greenhouse Gas Initiative (RGGI)

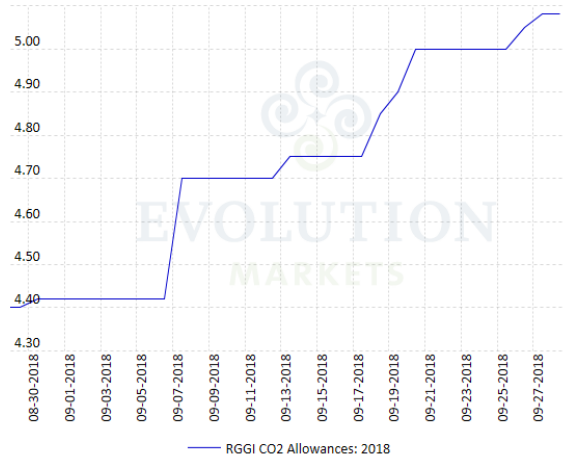
### Market Status

In a surprise to market participants, RGGI Prices jumped 15% after the September Auction cleared \$4.50, approximately \$0.10 higher than where the market had been trading before the results were announced. All told, RGGI Allowance prices have increased 22% in 2018 from \$4.15 on Jan. 2, 2018 to \$5.07 as of Oct. 1. Reasons for the increase include a combination of factors.

Term	Bid	Offer
Spot	\$5.05	\$5.09
Dec 18 Cleared	\$5.08	\$5.12

First, the RGGI Program Review, which was completed in Dec. 2017, lowers the emissions cap in 2021. The Program Review also incorporates a full bank adjustment starting in 2020 and running over five years and creates an Emission Containment Reserve (ECR) to provide on-going price support. In addition, consistent news reports over the year that New Jersey and Virginia will join RGGI in 2020 has market participants anticipating a growth in the RGGI market and an increase in demand for allowances.

### GRAPHS & CHARTS



### Program Review Summary

On Dec. 19, 2017 RGGI published the results of their Program Review. The Summary is as follows: Cap of 75.15 million declining by 2.275 million per year to 2030. Full 2020 bank adjustment over five years from 2021 to 2025. A Cost Containment Reserve (CCR) and an Emission Containment Reserve (ECR), the size each being 10% of the regional cap. The ECR Trigger price will be \$6.00 in 2021 and rise 7% per year. The CCR trigger price will be \$13.00 in 2021 and also rise 7% per year. RGGI is currently seeking state-specific regulatory processes to implement the Updated Model Rule.

## Fundamentals and Future Outlook

Calendar year 2017 RGGI Carbon emissions was 66 million tons, well below Calendar year 2016 RGGI Carbon emissions of 81 million tons. However, the first quarter of 2018 was cold, and estimated 2018 emissions is approximately 70 million tons. Based on estimated emissions, it is projected that the 2020 bank could be approximately 78 million tons. The actual 2020 Bank will be adjusted over five years, in addition to a declining emissions cap over that period.

Virginia regulators recently announced a proposed cap of 28 million tons for its in-state generators beginning in 2020. Originally, the state proposed a 33 million ton cap. New Jersey has announced they plan on joining RGGI in 2020, however the proposed cap is yet to be announced.

Market participants assume the RGGI price will trend to the ECR trigger price of \$6.00, which will be in place in late 2020. Actual emissions year-to-year will determine if the price moves beyond the ECR trigger price towards the CCR price. Higher emissions will cause the bank to be depleted earlier than expected putting more demand into the market. Until then, it seems the RGGI price will be affected by specifics on how and when New Jersey and Virginia join RGGI, what each state's allocation will be, and seasonal emissions and liquidity of supply.

### GRAPHS & CHARTS

